

NOTE 7. REVENUE BONDS

REVENUE BONDS

The State Constitution empowers certain State agencies and authorities to issue bonds that are not supported by the full faith and credit of the State. These bonds pledge income derived from acquired or constructed assets or some other stream of revenues to retire the debt and pay related interest.

PRIMARY GOVERNMENT

Delaware Economic Development Office

The Office has \$350,000 of industrial development revenue bonds outstanding at June 30, 2002, which are supported by the full faith and credit of the State. Future debt service requirements are dependent on lease rentals or other payments from the users of the projects financed with the separate bond proceeds. The State is liable for payment of principal and interest to the extent that the other sources default on payments.

DeIDOT Fund

Delaware Transportation Authority

The Delaware Transportation Authority (the Authority) is subject to oversight by the Department of Transportation and is included in the DeIDOT fund. The Authority assists in the implementation of the State's plans and policies regarding the coordination and development of a comprehensive, balanced transportation system

for the State. It has the power to develop a unified system of air, water, vehicular and specialized transportation in the State. The Authority includes the Transportation Trust Fund and the Delaware Transit Corporation. The Secretary of the Department of Transportation, with consent of the Governor, appoints the Authority's Director.

To assist the Authority in financing a unified transportation system, the State created a Transportation Trust Fund (the Trust Fund) within the Authority which receives all receipts of the Authority. The primary sources of funding of the Trust Fund are motor fuel taxes and motor vehicles fees imposed and collected by the State and deposited in the Trust Fund, and revenue from the Delaware Turnpike, which the Authority owns and operates. The Authority also has the power to issue bonds, with legislative authorization, to finance improvements to the State's transportation system. The Authority may apply Trust Fund revenue in excess of debt service requirements for transportation projects, subject to legislative authorization, and may pledge any or all of this revenue to secure financing for these projects.

Bonds outstanding at June 30, 2002 amounted to \$675,735,000. The Delaware Transportation Authority had a total of \$350,478,707 in authorized but unissued bonds at June 30, 2002. Bonds outstanding at June 30, 2002 are detailed below.

Delaware Transportation Authority Revenue Bonds			
Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding June 30, 2002
			(Expressed in Thousands)
Transportation System Senior Revenue Bonds - Series			
2002	4.0% - 5.0%	2008	\$ 43,015
2001	3.5% - 5.25%	2021	85,000
1988	7.4% - 7.5%	2002	3,895
1991	5.5% - 6.5%	2016	11,850
1992	5.1% - 5.8%	2012	5,505
1993	4.6% - 5.5%	2010	64,900
1993 A	4.6% - 5.25%	2014	98,695
1994	5.4% - 7.0%	2014	19,915
1997	5.0% - 6.0%	2017	110,010
1998	4.0% - 5.5%	2016	59,760
2000	5.0% - 6.0%	2020	81,910
Transportation System Junior Revenue Bonds - Series			
2002	4.375% - 5.0%	2009	48,120
1988	7.3% - 7.5%	2002	8,100
1992	5.1% - 5.80%	2009	1,000
1993	4.60% - 5.0%	2005	29,880
1997	4.5%	2004	4,180
			<hr/>
	Totals		675,735
	Less: Current portion		41,490
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			\$ 634,245

The Authority has defeased various other bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is therefore removed as a liability of the Authority. As of June 30, 2002, a total of \$233,780,000 of defeased bonds are outstanding.

Future debt service requirements for the Authority's outstanding bonds are shown in the table below.

Delaware Transportation Authority Revenue Bonds			
(Expressed in Thousands)			
Year Ending June 30	Principal	Interest	Total
2003	\$ 41,490	\$ 33,344	\$ 74,834
2004	45,060	31,540	76,600
2005	46,800	29,217	76,017
2006	47,805	26,780	74,585
2007	49,240	24,271	73,511
2008-2012	232,365	82,087	314,452
2013-2017	153,045	34,722	187,767
2018-2022	59,930	6,815	66,745
Totals	<u>\$ 675,735</u>	<u>\$ 268,776</u>	<u>\$ 944,511</u>

Department of Natural Resources and Environmental Control

On July 17, 1998, the State used available funds to defease the total remaining balances of the 1991 and 1993 Land and Water Conservation Trust Fund Revenue Bonds. Funds were deposited in an escrow account to provide for future debt service requirements of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Government-wide financial statements. As of June 30, 2002, a total of \$1,505,000 defeased bonds are outstanding.

COMPONENT UNITS

Delaware State Housing Authority

The Authority is authorized to issue bonds and notes, with the approval of the State, in order to exercise its powers. These bonds and notes are secured solely by the revenues, loans, and other pledged assets under the related Bond Indenture of the Authority. Bonds issued by the Authority are not secured by the full faith, credit and taxing power of the State.

The Delaware State Housing Authority has issued revenue bonds to provide financing for mortgage, construction, and other loans to not-for-profit and limited for-profit housing sponsors; to make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans; and to purchase qualified mortgage loans from mortgage lenders. The bonds are direct obligations of the Authority and are secured by the mortgage loans made or purchased under the applicable resolutions; the revenues, prepayments and foreclosure proceeds received are related to the mortgage loans, and certain funds and accounts established pursuant to the applicable bond resolutions. All bonds are callable subject to certain restrictions. Interest rates on bonds outstanding range from 2.25% to 10.375% with maturities through July 1, 2034.

On November 13, 2001, the Authority issued \$28,985,000 of Single Family Mortgage Revenue Bonds 2001 Series A of which \$8,985,00 was for a current refunding of Residential Mortgage Revenue Bonds 1989 Series A. The refunding was undertaken to reduce the total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$201,163. This amount is being netted against the carrying value of the new debt and amortized over the life of the refunded bonds, which is shorter than the life of the new bonds. The transaction resulted in an economic gain of \$2,763,241 and a reduction of \$4,659,145 in future debt service payments.

On December 3, 2001, the Authority issued \$49,305,000 of Multi-Family Mortgage Revenue Bonds 2001 Series A of which \$49,305,000 was for a current refunding of 1977 Series A (partial refunding), 1979 Series A and 1987 Series A, as well as the Multi-Family Mortgage Refunding Bonds 1991 Series A, 1992 Series A and 1992 Series B. The refunding was undertaken to reduce the total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$1,260,702. This amount is being netted against the carrying value of the new debt and amortized over the life of the refunded bonds, which is shorter than the life of the new bonds. The transaction resulted in an economic gain of \$7,381,517 and a reduction of \$12,133,260 in future debt service payments.

On February 26, the Authority issued \$23,064,841 of Single Family Mortgage Revenue Bonds 2002 Series A. On June 26, 2002, the Authority issued \$30,600,000 of Single Family Mortgage Revenue Bonds 2002 Series B. Proceeds of both sales were used for making new qualified residential mortgage loans; and to purchase qualified mortgage loans from mortgage lenders.

Interest rates for outstanding bonds payable for the Authority range from 2.25% to 10.375%, with maturities from 2011 to 2034. Outstanding bonds at June 30, 2002 amounted to \$424,769,213. Future debt service requirements for the Authority's bonds are shown on the following page.

Delaware State Housing Authority Revenue Bonds

(Expressed in Thousands)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 11,210	\$ 23,143	\$ 34,353
2004	12,839	22,173	35,012
2005	13,126	21,611	34,737
2006	13,483	21,004	34,487
2007	13,946	20,347	34,293
2008-2012	77,097	90,385	167,482
2013-2017	71,965	68,508	140,473
2018-2022	83,499	52,895	136,394
2023-2027	65,731	36,133	101,864
2028-2032	52,671	13,572	66,243
2033-2037	9,202	225	9,427
Total	<u>\$ 424,769</u>	<u>\$ 369,996</u>	<u>\$ 794,765</u>

Riverfront Development Corporation

Bonds payable represents amounts due under variable rate bonds, which were issued by RDC in November 1997. The bonds bear interest at a rate which is determined quarterly and is equal to the yield on 90-day U.S. Treasury Bills plus .30%. The rate as of June 30, 2002 was 5.125%. The bonds mature December 1, 2017. The bonds are subject to mandatory redemption requirements as shown on the below.

Riverfront Development Corporation Revenue Bonds

(Expressed in Thousands)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 180	\$ 280	\$ 460
2004	180	270	450
2005	200	261	461
2006	240	249	489
2007	245	237	482
2008-2012	1,640	957	2,597
2013-2017	2,454	429	2,974
2018	315	8	323
Total	<u>\$ 5,545</u>	<u>\$ 2,691</u>	<u>\$ 8,236</u>

Delaware State University

In May of 1999, the University issued Revenue Refunding Bonds of \$15,865,000 (par value) to advance refund the 1992 and 1996 series bonds with a total par value of \$14,625,000. The Bond Trust Indenture requires the University to maintain a Debt Service Reserve Fund equal to the maximum annual debt service on all bonds

outstanding under the Indenture. In September 1997, the University amended the indenture to provide for the deposit of a surety bond in the Debt Reserve Fund replacing the investment requirement. This bond was obtained from MBIA Insurance Corporation in the amount of \$1,580,000. The bond ratings were not changed as a result of this substitution. In addition, the University has pledged for payment of debt, all net operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding.

Interest rates range from 3.55% to 5.25% on the outstanding Revenue Refunding Bonds. Debt service requirements for the Delaware State University Bonds are shown on the following page.

Delaware State University Revenue Refunding Bonds

(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2003	\$ 840	585	\$ 1,425
2004	870	554	1,424
2005	905	521	1,426
2006	940	485	1,425
2007	690	453	1,143
2008-2012	3,880	2,086	5,966
2013-2017	4,760	897	5,657
2018	1,095	29	1,124
Total	\$ 13,980	\$ 5,610	\$ 19,590
Less: Unamortized Bond Discount	(73)		
	\$ 13,907		

The University has defeased various other bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is therefore removed as a liability of the University. As of June 30, 2002 a total of \$11,986,000 of defeased bonds are outstanding.